

Banking & Finance | Capital Markets

# MAS Proposes to Impose on All REITs Minimum Interest Coverage Ratio Threshold and Aggregate Leverage Limit of 50%

## Introduction

The Monetary Authority of Singapore ("MAS") issued a consultation paper seeking comments on its proposals to:

- (a) simplify the leverage requirements for real estate investment trusts ("REITs"); and
- (b) require REITs to perform and disclose sensitivity analyses on the impact of changes in EBITDA and interest rates on their interest coverage ratio ("ICR")<sup>1</sup> in their interim financial results and annual reports.

Comments on the proposals must be submitted to MAS by 23 August 2024.

## Simplifying Leverage Requirements for REITs

Currently, a REIT may increase its aggregate leverage<sup>2</sup> beyond the 45% limit, up to a maximum of 50% only if the REIT has a minimum ICR of 2.5 times after taking into account the interest payment obligations arising from new borrowings.

MAS proposes to amend the leverage requirements for REITs in Singapore as follows:

- (a) **all REITs will be subject to a minimum ICR of 1.5 times at all times, regardless of their aggregate leverage level.** However, if a REIT's ICR falls below the minimum of 1.5 times due to circumstances beyond the control of the REIT manager (e.g. substantial business interruptions or closures due to nationalisation, expropriation, acts of war, terrorism, civil unrest, riots, strikes or acts of God), it will not be deemed as a breach of the ICR requirement; and

<sup>1</sup> ICR measures the debt servicing ability of a REIT and refers to the trailing 12 months' earnings before interest, tax, depreciation and amortisation ("EBITDA", excluding effects of any fair value changes of derivatives and investment properties, and foreign exchange translation) divided by the trailing 12 months' interest expense, borrowing-related fees and distributions on hybrid securities.

<sup>2</sup> Aggregate leverage refers to the total borrowings and deferred payments of a REIT divided by the REIT's deposited property. The leverage limit seeks to ensure that a REIT manages its debt level and is well-capitalised.

# Client Update: Singapore

## 2024 AUGUST

Banking & Finance | Capital Markets

- (b) **all REITs will be subject to a higher single aggregate leverage limit of 50%.** The aggregate leverage limit of 50% together with the ICR floor aim to foster prudent borrowings by REITs.

The proposals would allow Singapore REITs to have greater financial flexibility to navigate the high-interest rate environment.

## Enhanced Disclosures

It is proposed that REITs should perform and disclose sensitivity analyses on the impact of changes in EBITDA and interest rates on REITs' ICRs in their interim financial results and annual reports. This helps investors understand on how a REIT's credit profile could be affected by changes in market conditions.

REIT Managers should provide analyses that are reasonable, based on each REIT's business profile.

For consistency and comparability across the industry, the interest rate sensitivity analyses should include at least one scenario assuming a 10% decrease in EBITDA and a 100 basis points increase in interest rates.

## Concluding Remarks

The proposals in the consultation paper, if adopted, are expected to give REITs greater flexibility in managing their financing structures. By balancing the need for prudent borrowing practices with the flexibility to navigate an ever-evolving economic landscape, MAS is setting the stage for a more resilient and dynamic REIT sector.

The proposals also dovetail with SGX RegCo's efforts to enhance financial disclosures by listed issuers (which include REITs) on SGXNET, as contained in its Regulator's Column issued in 2023 highlighting its expectations of disclosures on key financial indicators such as liquidity ratios, especially where these indicators raise investor concerns.

Please click on the links below for more information:

- MAS "[Consultation Paper on Proposed Amendments to the Leverage Requirements for REITs](#)" issued on 24 July 2024
- MAS press release titled "[MAS Proposes to Impose Minimum Interest Coverage on All REITs](#)" issued on 24 July 2024

If you have any queries on the above developments, please feel free to contact our team members below who will be happy to assist you.

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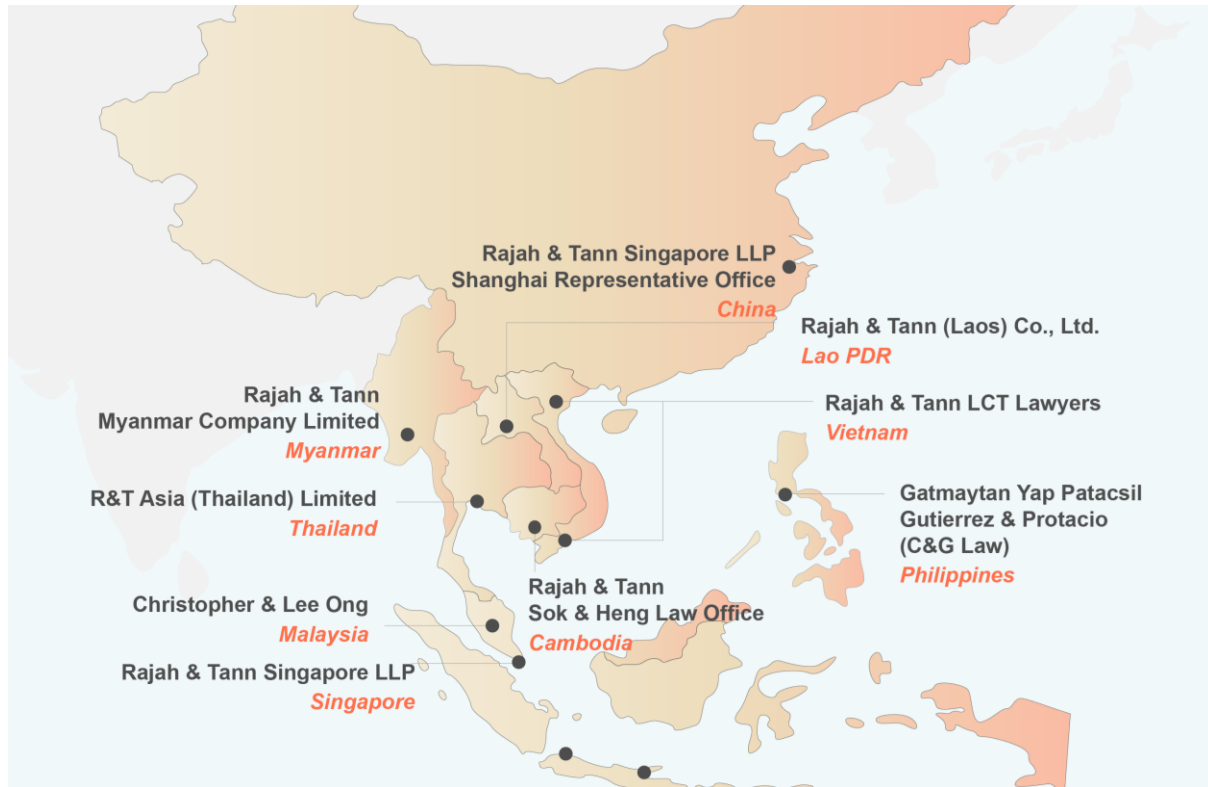
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# Client Update: Singapore

## 2024 AUGUST

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